

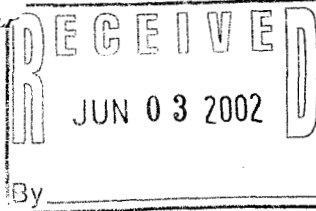


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AZ CORP COMMISSION  
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May 31, 2002

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E-01345A-01-0822  
E-00000A-01-0630  
E-01933A-02-0069  
E-01933A-98-0471

Chairman William Mundell, Commissioner  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007-2927

Re: Your May 14, 2002 Information Request to Parties in Docket No. E-00000A-02-0051; Response to May 8, 2002 Data Request -- FERC Docket No. PA 02-2-000

Dear Chairman Mundell:

Pursuant to the above-referenced information request, the undersigned, on behalf of Harquahala Generating Company, LLC, provides the following documents:

- (1) Response of PG&E National Energy Group, Inc to the FERC Data Request.
- (2) Response of Pacific Gas and Electric Company to the FERC Data Request.
- (3) Two press releases summarizing the Pacific Gas and Electric Company response.

If additional documents are filed in response to the FERC docket, an appropriate supplement to your information request will be submitted.

Sincerely,

Roger K. Ferland

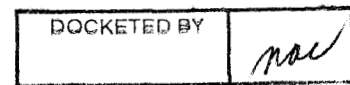
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cc: Tom Broderick  
Jim Tramuto

Arizona Corporation Commission

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**Pacific Gas and  
Electric Company**

**WE DELIVER ENERGY.**

News Department  
77 Beale Street  
San Francisco, CA 94105  
415/973-5930

**NEWS**

FOR IMMEDIATE RELEASE

May 22, 2002

CONTACT: News Department (415) 973-5930

**PACIFIC GAS AND ELECTRIC COMPANY CONFIRMS TO FERC:**  
**IT DID NOT ENGAGE IN ENRON-LIKE TRADING STRATEGIES**  
*Utility Worked to Protect Customers From Market Abuses*

**SAN FRANCISCO** – Pacific Gas and Electric Company today informed the Federal Energy Regulatory Commission (FERC) that it did not engage in Enron trading strategies now under investigation by the Commission as part of its fact finding review of the California energy market during 2000 and 2001.

FERC has requested information about trading activities from more than 150 companies who sold power in the California market in 2000 and 2001. FERC made its request due to revelations contained in internal Enron memos that described trading strategies used by the company during 2000 and 2001 in the California wholesale electricity markets.

In its response, Pacific Gas and Electric Company told FERC that as the largest buyer in the California market, its goal was to minimize costs in the California Power Exchange (PX) and California Independent System Operator (CAISO) markets. These costs would ultimately be passed on to California energy consumers. Pacific Gas and Electric Company has on numerous occasions disclosed and explained to the CAISO, the FERC, the California Public Utilities Commission, and other regulatory entities how it procured power to meet load in the California market.

**-MORE-**

The utility also noted that recently filed testimony with the CPUC demonstrates that Pacific Gas and Electric Company submitted bid curves to the PX designed to minimize the overall purchase costs in California's market and protect its customers and shareholders from volatile energy prices. In its response, the utility also indicated it had attempted to counteract market abuses in the dysfunctional market, particularly phantom congestion which had the effect of increasing prices.

Pacific Gas and Electric Company's response to FERC is available at [www.pge.com](http://www.pge.com).



*PG&E Corporation*

Corporate Communications  
One Market, Spear Tower  
Suite 2400  
San Francisco, CA 94105  
1-800-743-6397

NEWS

FOR IMMEDIATE RELEASE

May 22, 2002

CONTACT: PG&E Corporation

**PG&E Corporation Units Did Not Engage In Enron Trading  
Strategies, FERC Told**

(San Francisco, CA) – PG&E Corporation (NYSE: PCG) reported today that its business units, Pacific Gas and Electric Company and the PG&E National Energy Group (PG&E NEG), have informed the Federal Energy Regulatory Commission (FERC) that they did not engage in Enron trading strategies. The Commission has asked more than 150 companies to provide information on their power marketing and trading activities in the California energy market during 2000 and 2001.

We are pleased to cooperate with the FERC investigation and we hope that this will assist in restoring confidence in the energy markets as speculation is replaced by fact.

Copies of Pacific Gas and Electric Company's and the PG&E National Energy Group's responses to FERC are available for viewing at [www.pgecorp.com](http://www.pgecorp.com). Copies of the press releases issued by Pacific Gas and Electric Company and the PG&E National Energy Group summarizing their respective response to FERC may also be viewed at [www.pgecorp.com](http://www.pgecorp.com).

###

**UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION**

**Fact-Finding Investigation of Potential  
Manipulation of Electric and  
Natural Gas Prices**

**Docket No. PA02-2-000**

**PACIFIC GAS AND ELECTRIC COMPANY'S  
RESPONSE TO MAY 8, 2002 DATA REQUESTS**

Pacific Gas and Electric Company (PG&E) respectfully submits this response to the data requests propounded by FERC on May 8, 2002 in the above-captioned proceeding. This response is based on a thorough investigation that was diligently conducted, as further described in the attached declaration of PG&E General Counsel Roger J. Peters.

This response is submitted on behalf of PG&E and its corporate parent PG&E Corporation, and its subsidiaries and affiliates. However, PG&E's affiliate, PG&E National Energy Group, is conducting its own investigation, and will submit its response separately.

As a preliminary matter, PG&E notes that it was a net buyer of energy on behalf of utility customers in the California ISO and PX markets throughout 2000 and in 2001, until the point in January 2001 when PG&E could no longer buy power and the State of California stepped in to buy power instead. As a net buyer, PG&E's goal in its procurement bidding practices was to minimize costs in the PX and ISO markets. In

providing these responses, PG&E does not intend to waive any applicable privilege. No privileged documents are being produced. Responsive documents that are privileged have been omitted from production, and are described in an attached privilege log. Some of the documents that are being produced bear a privilege designation. On review, PG&E has concluded that those documents, notwithstanding the designation, are not privileged.

PG&E reserves its right to supplement this response if further investigation makes such supplementation appropriate.

**I. Responses to Requests for Admissions**

**REQUEST:**       A.    1.    Admit or Deny: The company engaged in activity referred to in the Enron memoranda as "Export of California Power" during the period 2000-2001, in which the company buys energy at the Cal PX to export outside of California in order to take advantage of the price spread between California markets (which were capped) and uncapped markets outside California.

**RESPONSE:**       DENY.

**REQUEST:**       2.    If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all purchases and sales of energy and/or ancillary services, counter-parties to the transactions, prices and volumes, delivery points, and corresponding Cal ISO schedules. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:**       NOT APPLICABLE.

**REQUEST:**       B.    1.    Admit or Deny: The company engaged in activity described in the Enron memoranda as "Non-Firm Export" during the period 2000-2001, in which the company gets a counterflow (scheduling energy in the opposite direction of a constraint) congestion payment from the Cal ISO by scheduling non-firm energy from a point in California to a control area outside of California, and cutting the non-firm energy after it receives such payment.

**RESPONSE:**       DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, congestion payments received, corresponding Cal ISO schedules, counter parties, and delivery points. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** C. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Death Star" during the period 2000-2001, in which the company schedules energy in the opposite direction of congestion (counterflow), but no energy is actually put onto the grid or taken off of the grid. This allows the company to receive congestion payments from the Cal ISO.

**RESPONSE:** DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, all transmission and energy schedules, the counter parties, all congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** D. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Load Shift" during the period 2000-2001. This variant of "relieving congestion" involves submitting artificial schedules in order to receive inter-zonal congestion payments. The appearance of congestion is created by deliberately over-scheduling load in one zone (e.g., NP-15), and under-scheduling load in another, connecting zone (e.g., SP-15); and shifting load from a congested zone to the less congested zone, thereby earning congestion payments for reducing congestion.

**RESPONSE:** DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, all schedules of load by zone, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** E. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Get Shorty" during the period 2000-2001, also known as "paper trading" of ancillary services in which it: (i) sells ancillary services

in the Day-ahead market; and (ii) the next day, in the real-time market, the company "zeros out" the ancillary services by canceling the commitment to sell and buying ancillary services in the real-time market to cover its position. The phrase "paper trading" is used because the seller does not actually have the ancillary services to sell.

**RESPONSE:** DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this trading strategy, including the dates of all transactions; prices and volumes for sales of ancillary services in the Day-ahead market; the cancellation of such sales, prices and volumes for the purchase of ancillary services in the real-time market to cover the company's position; and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** F. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Wheel Out" during the period 2000-2001. Knowing that an intertie is completely constrained (*i.e.*, its capacity is set at zero), or that a line is out of service, the company schedules a transmission flow over the facility. The company also knows that the schedule will be cut and it will receive a congestion payment without actually having to send energy over the facility.

**RESPONSE:** DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, corresponding schedules, counter parties, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** G. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Fat Boy" during the period 2000-2001 in which the company artificially increases load on the schedule it submits to the Cal ISO with a corresponding amount of generation. The company then dispatches the generation its schedules, which is in excess of its actual load. This results in the Cal ISO paying the company for the excess generation. Scheduling coordinators that serve load in California may be able to use this activity to includes the generation of other sellers.

**RESPONSE:** DENY.



2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, corresponding schedules, and payments from the Cal ISO for excess generation (including both price and volumes). Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** H. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Ricochet," also known as "megawatt laundering," during the period 2000-2001, in which the company: (i) buys energy from the Cal PX and exports to another entity, which charges a small fee; and (ii) the first company resells the energy back to the Cal ISO in the real-time market.

**RESPONSE:** DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, names of counter parties and whether they were affiliates, the fees charged, prices and volumes for energy that was bought and then re-sold. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** I. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Selling Non-firm Energy as Firm Energy" during the period 2000-2001, in which the company sells or resells what is actually non-firm energy to the Cal PX, but claims that it is "firm" energy. This allows the company to receive payment from the Cal ISO for ancillary services that it claims to be providing, but does not in fact provide.

**RESPONSE:** DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, prices and volumes, and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

**REQUEST:** J. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as "Scheduling Energy to Collect Congestion Charge II" during the period 2000-2001, in which the company: (i) schedules a counterflow even though it does not have any available generation; (ii) in real time, the Cal ISO charges the company for each MW that it was short; and (iii) the company

collects a congestion payment associated with the counterflow scheduled. This activity is profitable whenever the congestion payment is greater than the charge associated with the energy that was not delivered.

**RESPONSE:** DENY.

**REQUEST:** 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, corresponding schedules, prices and volumes, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

**RESPONSE:** NOT APPLICABLE.

K. 1. Admit or Deny: The company engaged in any activity during the period 2000-2001 that is a variant of any of the above-described activities or that is a variant of, or uses the activities known as, "inc-ing load" or "relieving congestion," as described above.

**RESPONSE:** DENY.

PG&E's bidding behavior in response to California market dysfunctions is discussed below in the response to Part III(A) of the data request.

**REQUEST:** 2. If you so admit, provide a narrative description of each specific time in which the company engaged in such activity and provide complete details of those transactions, including the dates of the transactions, counter parties, prices and volumes bought or sold, corresponding schedules, and any congestion payments received. Also, provide all documents that refer to or relate to such activities.

**RESPONSE:** NOT APPLICABLE.

## **II. Response to Requests for Production of Documents**

**REQUEST:** A. Provide copies of all communications or correspondence, including e-mail messages, instant messages, or telephone logs, between your company and any other company (including your affiliates or subsidiaries) with respect to all of the trading strategies discussed in the Enron memoranda (both the ten "representative trading strategies" as well as "inc-ing load" and "relieving congestion"). This request encompasses all transactions conducted as part of such trading strategies

engaged in by your company and the other company in the U.S. portion of the WSCC during the period 2000-2001.

**RESPONSE:** In response to Request for Production II(A), PG&E has not found any communications or correspondence between PG&E and any other company (including affiliates or subsidiaries) with respect to any of the trading strategies discussed in the Enron memoranda or similar strategies.

**REQUEST: B.** Provide copies of all material, including, but not limited to, opinion letters, memoranda, communications (including e-mails and telephone logs), or reports, that address or discuss your company's knowledge of, awareness of, understanding of, or employment or use of any of the trading strategies discussed in the Enron memoranda, or similar trading strategies, in the U.S. portion of the WSCC during the period 2000-2001. The scope of this request encompasses all material that address or discuss your company's knowledge or awareness of *other* companies' use of the trading strategies discussed in the Enron memoranda, or similar trading strategies, including, but not limited to: (i) offers by such other companies to join in transactions related to such trading strategies, regardless of whether such offers were declined or accepted; and (ii) possible responses by your companies to other companies' use of such trading strategies. To the extent that you wish to make a claim of privilege with respect to any responsive material, please provide an index of each of those materials, which includes the date of the each individual document, its title, its recipient(s) and its sender(s), a summary of the contents of the document, and the basis of the claim of privilege.

**RESPONSE:** In response to Request for Production II(B)(i), PG&E has found no documents with respect to offers by other companies to join in transactions related to such trading strategies, regardless of whether such offers were declined or accepted. With respect to the general question of materials relating to the company's "knowledge of, awareness of, understanding of, or employment or use of" such strategies, and (ii) possible responses by PG&E to other companies' use of such trading strategies, PG&E submits copies of all known non-privileged materials under Attachment A that address or discuss PG&E's awareness of the use of such strategies by other companies

(including affiliates and subsidiaries) and possible responses by PG&E to other companies' use of such trading strategies during the period 2000-2001. PG&E is also submitting a log which details the documents or communications for which PG&E is making a claim of privilege, appended hereto as Attachment B.

### **III. Response to Requests for Other Information**

**REQUEST: A.** On page 2 of the December 8, 2000, Enron memorandum, the authors allege that traders have learned to build in under-scheduling of energy into their models and forecasts. State whether your company built under-scheduling into any of its models or forecasts during the period 2000-2001, and provide a narrative description of such activity. Provide copies of all such models or forecasts prepared by or relied on by your company during the period 2000-2001 that had under-scheduling built into them.

**RESPONSE:** This request appears to be addressed to "traders" that reacted to bidding behavior of the IOUs. It is therefore inapplicable to PG&E. In the event that the Commission is seeking information from PG&E concerning "under-scheduling", however, PG&E submits this response describing its bidding practices, and how they relate to the concept of "under-scheduling".

PG&E has on numerous occasions disclosed and explained its demand bidding practices to the ISO, FERC, the ISO's market monitoring unit and other regulatory entities. Most recently, PG&E filed testimony in an ongoing investigation at the California Public Utilities Commission. *Application of Pacific Gas & Electric Company in the 2001 Annual Transition Cost Proceeding for the Record Period July 1, 2000, through June 30, 2001*, Application 01-09-003. The relevant portions of the CPUC testimony are appended hereto as Attachment C. The testimony demonstrates that PG&E

submitted bid curves to the PX for its aggregate load that were designed to minimize overall purchase costs in the ISO and PX markets. This practice, when coupled with the bidding behavior of other market participants, who often submitted steeply sloping supply curves, resulted in the majority of the PG&E load being served in the PX market, while the remainder was served in the ISO real time market. While the price for additional power in the ISO real time market was often higher on a per unit basis than in the PX market, paying a higher price in the ISO market for the incremental portion of total load was more economical than bidding higher prices into the PX market and paying a much higher price in the PX for every megawatt purchased in the PX single clearing price auction. PG&E's bidding strategy was consistent with PG&E's efforts to obtain the aggregate needed supply at least cost.

As has been documented by the ISO Market Surveillance Committee, the ISO Department of Market Analysis, and in filings by various IOUs including PG&E at the FERC and CPUC, it was indeed a predictable reality that insufficient demand cleared in the Day Ahead markets, so that the demand had to be served through real time purchases. The cause of that insufficiency, however, is a result of a number of factors, as documented in the various market monitoring reports, in particular, the Market Surveillance Committee of the ISO's Report on Redesign of Markets for Ancillary Services and Real-Time Energy (March 25, 1999), An Analysis of the June 2000 Price Spikes in the California ISO's Energy and Ancillary Services Markets (September 6, 2000), and the Department of Market Analysis' Report on California Energy Market Issues and Performance: May-June 2000 (August 10, 2000).

For example, PG&E found in some periods that sellers were outbidding PG&E for PG&E's own generation, so that PG&E was left after the Day Ahead market with less power than it went in with. As described in the Emergency Motion that PG&E submitted in December 12, 2000, during that time period less than 50 percent and as little as 10 percent of PG&E's own generation and contracts met PG&E customer demand.

Although PG&E bid its load into the PX Day Ahead markets, PG&E was unable to clear more than 20 percent of its load through the PX. PG&E noted that the balance of PG&E generation and contracts were purchased by third parties, and that it appeared that the same parties were selling the generation back to California at prices of \$1000/MWh or more.

One of the factors preventing PG&E from serving more of its load in the Day Ahead market was phantom congestion. During the year 2000, it became increasingly difficult for reasonable demand bids to clear in the Day Ahead markets. In part, PG&E demand bids would not clear with all load served because of "phantom" congestion in the Day Ahead markets. This congestion is called phantom congestion because it appeared in Day Ahead markets, and was often relieved only once PG&E or some other entity agreed to reduce its load. But the same load as originally bid would be served in real time, with no real time congestion. PG&E, through its bidding, defended against and counteracted this phantom result to better match the physical realities of the system.

The problem of phantom congestion was identified well before 2000, and was addressed in Commission orders dating back to 1998 and 1999. This problem has been attributed to the impact of old pre-restructuring contracts between PG&E and its

customers (the "ETC" contracts). However, the causes of phantom congestion extended beyond the ETC contracts, as reflected in the Enron memoranda, and continued during the period 2000 and 2001. As the largest net buyer of energy in Northern California, PG&E procurement costs were adversely impacted when phantom congestion artificially raised prices in Northern California. PG&E found that it could moderate the detrimental impact of this dysfunction somewhat when submitting demand bids into the Day Ahead market. By adjusting its bid curve slightly downward for its northern demand (north of Path 15), and adjusting its bid curve comparably upward for its southern demand (south of Path 15), the impact of this phantom congestion could be neutralized. This adjustment to the bid curves in north and south reflected the physical reality that southern resources could serve northern loads in these periods of phantom congestion, and only "appeared" unable to serve the loads because of the phantom congestion. Phantom congestion could be unpredictable and quite volatile, sometimes switching direction or increasing from day to day or hour to hour, so the impact of such adjustments could vary, but over the long run such adjustments in PG&E's bid curves had the net impact of yielding total procurement costs closer to what they would have been if there had been no phantom congestion.

Thus, with phantom congestion, as with other dysfunctions that prevented PG&E from serving all of its load in the PX markets, PG&E's objective was to minimize procurement costs.

**REQUEST: B.** Refer to the discussion of the trading strategy described as "Ricochet" in the Enron memoranda. State whether your company purchased energy from, or sold energy to, any Enron company, including Portland General Electric

Company, as part of a "Ricochet" (or megawatt laundering) transaction during the period 2000-2001. Provide complete details as to such transactions, including the dates of the transactions; the names, titles, and telephone numbers of the traders at your company who engaged in such transactions; the prices at which your company bought and sold such energy (on a per transaction basis); the volumes bought and sold (on a per transaction basis); delivery points; and all corresponding schedules.

**RESPONSE:** PG&E did not purchase energy from, or sell energy to, any Enron company, including Portland General Electric Company, as part of a "Ricochet" transaction or as part of any related strategy during the period 2000-2001.



**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Fact-Finding Investigation of       )  
Potential Manipulation of Electric   )  
and Natural Gas Prices               )

Docket No. PA02-2-000

**RESPONSE OF PG&E NATIONAL ENERGY GROUP, INC.  
TO COMMISSION'S MAY 8, 2002 DATA REQUEST**

PG&E National Energy Group, Inc. ("NEG") on behalf of its subsidiary, PG&E Energy Trading – Power, L.P. ("PGET"), its former subsidiary, PG&E Energy Services Corporation ("Energy Services"), prior to the sale of Energy Services in June of 2000, and its current subsidiary, PG&E Energy Services Ventures, Inc. (which assumed the few remaining contracts that were not conveyed with the sale of Energy Services), respectfully submits its response to the Commission's data request Order issued May 8, 2002 to Sellers of Wholesale Electricity and/or Ancillary Services to the California Independent System Operator ("ISO") and/or the California Power Exchange ("PX") during the years 2000-2001 ("May 8 Order").

PGET and Energy Services are the only subsidiaries of NEG that sold electricity to the ISO or the PX during 2000-2001. NEG is a subsidiary of PG&E Corporation, which also owns Pacific Gas and Electric Company. NEG and its subsidiaries operate separately from Pacific Gas and Electric Company, which will submit a separate response to the May 8 Order. NEG has no knowledge of the trading activities of affiliates of PG&E Corporation that are not subsidiaries of NEG.

As requested, NEG diligently conducted a thorough investigation into the trading activities of its subsidiaries in the U.S. portion of the Western Systems Coordinating Council

("WSCC") during the years 2000 and 2001. NEG began its investigation immediately following the issuance of the May 8 Order. NEG issued a request to all personnel that may have knowledge of NEG's trading operations within the WSCC during the years 2000-2001 to provide all documents that may be responsive to the May 8 Order. NEG then conducted its own search of documents, including trading records, invoices, and computer files that may be responsive to the May 8 Order. NEG interviewed individuals that may have knowledge of electricity trading within the WSCC during calendar years 2000-2001. NEG questioned each of these individuals on the issues set forth in the May 8 Order, and required each of these individuals to search for and provide all documents that may be responsive to the May 8 Order. NEG retained the law firm of Latham & Watkins to assist with the investigation. The response below is the result of this investigation.

## **I. RESPONSES TO REQUESTS FOR ADMISSIONS**

### **A. In Response to Request for Admission A, NEG denies the following statement:**

The company engaged in activity referred to in the Enron memoranda as **"Export of California Power"** during the period 2000-2001, in which the company buys energy at the Cal PX to export outside of California in order to take advantage of the price spread between California markets (which were capped) and uncapped markets outside California.

### **B. In Response to Request for Admission B, NEG denies the following statement:**

The company engaged in activity described in the Enron memoranda as **"Non-Firm Export"** during the period 2000-2001, in which the company gets a counterflow (scheduling energy in the opposite direction of a constraint) congestion payment from the Cal ISO by scheduling non-firm energy from a point in California to a control area outside of California, and cutting the non-firm energy after it receives such payment.

- C. In Response to Request for Admission C, NEG denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Death Star**" during the period 2000-2001, in which the company schedules energy in the opposite direction of congestion (counterflow), but no energy is actually put onto the grid or taken off of the grid. This allows the company to receive congestion payments from the Cal ISO.

- D. In Response to Request for Admission D, NEG denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Load Shift**" during the period 2000-2001. This variant of "relieving congestion" involves submitting artificial schedules in order to receive inter-zonal congestion payments. The appearance of congestion is created by deliberately over-scheduling load in one zone (e.g., NP-15), and under-scheduling load in another, connecting zone (e.g., SP-15); and shifting load from a congested zone to the less congested zone, thereby earning congestion payments for reducing congestion.

- E. In Response to Request for Admission E, NEG denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Get Shorty**" during the period 2000-2001, also known as "paper trading" of ancillary services in which it: (i) sells ancillary services in the Day-ahead market; and (ii) the next day, in the real-time market, the company "zeros out" the ancillary services by cancelling the commitment to sell and buying ancillary services in the real-time market to cover its position. The phrase "paper trading" is used because the seller does not actually have the ancillary services to sell.

- F. In Response to Request for Admission F, NEG denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Wheel Out**" during the period 2000-2001. Knowing that an intertie is completely constrained (i.e., its capacity is set at zero), or that a line is out of service, the company schedules a transmission flow over the facility. The company also knows that the schedule will be cut and it will receive a congestion payment without actually having to send energy over the facility.

G. In Request for Admission G, the Commission asks whether NEG admits or denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Fat Boy**" during the period 2000-2001 in which the company artificially increases load on the schedule it submits to the Cal ISO with a corresponding amount of generation. The company then dispatches the generation it schedules, which is in excess of its actual load. This results in the Cal ISO paying the company for the excess generation. Scheduling coordinators that serve load in California may be able to use this activity to include the generation of other sellers.

The definition FERC provides for the above strategy appears identical to the definition FERC provides for "inc-ing load" in Admission K below. See NEG's Response to Request for Admission K below.

H. In Response to Request for Admission H, NEG denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Ricochet**," also known as "megawatt laundering," during the period 2000-2001, in which the company: (i) buys energy from the Cal PX and exports to another entity, which charges a small fee; and (ii) the first company resells the energy back to the Cal ISO in the real-time market.

I. In Response to Request for Admission I, NEG denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Selling Non-firm Energy as Firm Energy**" during the period 2000-2001, in which the company sells or resells what is actually non-firm energy to the Cal PX, but claims that it is "firm" energy. This allows the company to receive payment from the Cal ISO for ancillary services that it claims to be providing, but does not in fact provide.

J. In Response to Request for Admission J, NEG denies the following statement:

The company engaged in activity described in the Enron memoranda as "**Scheduling Energy to Collect Congestion Charge II**" during the period 2000-2001, in which the company: (i) schedules a counterflow even though it does not have any

available generation; (ii) in real time, the Cal ISO charges the company for each MW that it was short; and (iii) the company collects a congestion payment associated with the counterflow scheduled. This activity is profitable whenever the congestion payment is greater than the charge associated with the energy that was not delivered.

K. In Request for Admission K, the Commission asks whether NEG admits or denies the following statement:

The company engaged in any activity during the period 2000-2001 that is a variant of any of the above-described activities or that is a variant of, or uses the activities known as, **"inc-ing load"** or **"relieving congestion,"** as described above.

In response to Request for Admission K, with respect to "relieving congestion" and variants of that activity as described above and as referenced in the Enron memoranda, NEG denies the above statement. With respect to "inc-ing load" as described above and as referenced in the Enron memoranda, NEG denies the above statement. With respect to variants of "inc-ing load," NEG states below how PGET offered energy into the ISO's real-time market. Other than as stated below, NEG denies the above statement.

1. As previously discussed with the ISO in early 2000, PGET offered energy into the ISO's real-time market during the period 2000 and 2001. In order to participate in the real-time market, the ISO Tariff required the submission of a schedule showing supply equal to load. At that time, PGET did not serve load. During a meeting with ISO and PGET personnel, ISO's representative explained to PGET that other market participants that did not serve load (like PGET) were able to offer energy directly into the real-time market by submitting a balanced schedule showing: (i) the amount of energy such participant had available for the real-time market; and (ii) an equal amount of load. Forty-five days after the end of each month,

such participants would submit data showing actual load (which would be zero), and the ISO would settle with such participants based on the "decremental" clearing price for the energy.

2. The ISO representatives then explained that, to participate, PGET would need to execute the ISO Meter Services Agreement, to be downloaded from the ISO website. This agreement established the terms and conditions upon which PGET would provide certain settlement data, including its actual load. Since PGET had no actual load when it signed this agreement, the sections in the agreement requiring specific information to identify meters and describe load profiles were completed with "N/A." PGET and the ISO executed the Agreement on April 26, 2000. The ISO filed the Agreement with the FERC on May 8, 2000, and obtained FERC acceptance of that Agreement on June 22, 2000, with an effective date of April 26, 2000. Following the effective date of this agreement, and as previously discussed with the ISO, PGET complied with ISO requirements to submit a balanced schedule. Thereafter, PGET submitted meter data reflecting a zero load until August 2001. At that time, PGET began to serve small loads (between 3 and 26 MW) and these loads were reported in the meter data that was submitted.

3. Following the issuance of the FERC order of December 15, 2000, *San Diego Gas & Electric Company*, 93 FERC ¶ 61,294 (2000), ISO representatives confirmed with PGET that there were "no penalties" for overscheduling load to deliver energy in the real-time market.

4. For PGET, these practices were the method, based on advice from the ISO, by which PGET could offer energy directly into the ISO's real-time market.

## **II. REQUESTS FOR PRODUCTION OF DOCUMENTS**

In response to Request for Production of Documents A and B, NEG is providing all documents, except for any document protected by privilege from disclosure.

## **III. REQUESTS FOR OTHER INFORMATION**

A. In response to Request for Other Information A, NEG states that some NEG employees assumed (based upon public information in the trade press and issued by the ISO) that utilities have been under-scheduling load. However, NEG did not build this under-scheduling into any models or forecasts.

B. In response to Request for Other Information B, as discussed in response to Request for Admission H, NEG did not engage in the trading strategy described as "Ricochet" or megawatt laundering in the Enron memoranda.

WILLIAM A. MUNDELL  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER

MARC SPITZER  
COMMISSIONER

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May 14, 2002

Commissioner Jim Irvin  
Commissioner Marc Spitzer  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

All Parties in ACC Docket No. E-00000A-02-0051  
Generic Proceedings for Electric Restructuring

Re: Potential Market Manipulation of Electric Prices in the West, and Commission  
Oversight of Reliability of Electric Service in Arizona

Dear Commissioners Irvin and Spitzer and the  
Parties in Docket No. E-00000A-02-0051:

As we all must be aware from the trade press, recent disclosures from major energy providers concerning market practices and their alleged impact on prices in California during its energy crisis in 2000 – 2001 are topics of inquiry in the US Senate and House, as well as in California. In addition, the Federal Energy Regulatory Commission is currently conducting a fact-finding investigation of potential manipulation of electric and natural gas prices in the West in FERC Docket No. PA02-2-000. In March 2002, FERC requested information from power sellers concerning sellers' energy transactions in and out of the California wholesale electric market in 2000 and 2001. Enron Corporation's responses to the request for information revealed internal memoranda describing questionable and possibly illegal trading and scheduling strategies, that California officials are reported to claim played a large role in creating California's energy crisis.

On May 8, 2002, FERC issued a data request in Docket PA02-2-000, including requests for admissions and production of documents, to all sellers of wholesale electricity and/or ancillary services to the California Independent System Operator and/or the California Power Exchange during the years 2000-2001. The stated purpose of FERC's data request is to determine whether other sellers engaged in similar energy trading and scheduling tactics and practices as Enron had done.

FERC's investigation of potential energy market manipulation is directly related to issues on market power and abuse raised in our Commission's generic proceedings concerning electric restructuring in ACC Docket No. E-00000A-02-0051. I am determined to prevent



electric restructuring in Arizona from falling prey to the alleged market power abuses that have been linked to restructuring in California. It is important for the ACC to monitor FERC's investigation into potential market manipulation in the West. Therefore, I am requesting that ACC Staff actively monitor FERC's investigation of potential energy market manipulation in the West and make timely summary filings in the ACC generic electric restructuring docket as to the status of FERC's investigation.

If a party in ACC Docket No. E-00000A-02-0051 (or its parent corporation, or any of its other affiliates or subsidiaries) provides responses/admissions to FERC's May 8, 2002 data request in FERC Docket No. PA02-2-000, I am requesting that the party (or its parent, affiliate or subsidiary) file a notice that it has responded to FERC's data request and provide a summary of its response/admissions. Of course, it is expected that FERC's fact-finding investigation should lead also to specific recommendations by Staff and the other parties in the ACC generic restructuring docket to prohibit gaming of the market by energy sellers to the detriment of Arizona customers.

In a related matter, California has recently enacted two pieces of legislation targeting the reliability of electric power in California. California has passed legislation that when effective, will establish the California Electric Generation Facilities Standards Committee which will adopt standards for maintenance and operation of electric generation facilities located in California. (Senate Bill 39 of the Second Extraordinary Session of 2001-02.) There is also new legislation authorizing the existing California Electricity Oversight Board to investigate the California electric wholesale market to ensure availability of electric transmission and generation during peak periods. (Assembly Bill 28 of the 2001-02 Second Extraordinary Session.) It appears this legislation taken as a whole will not only enhance reliability, but also limit opportunities for gaming of the California power market through monitoring, reporting and enforcement of standards by the California Public Utilities Commission.

I am requesting that Staff and parties include in their filings in the generic electric restructuring docket, analysis of the California legislation and any similar legislation in other states. In addition, Staff and the other parties should make specific recommendations for Commission action and /or legislation targeting reliability through oversight of maintenance and operation of generation facilities, and limiting wholesale market power abuses.

Sincerely,

William A. Mundell  
Chairman